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Ontario Tax Studies

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Major Growth Characteristics of the Personal Income Tax in Ontario: 1972-1974



Staff Paper

Ministry of Treasury, Economics and
Intergovernmental Affairs
Taxation and Fiscal Policy Branch



Ontario Tax Studies 12

Major Growth Characteristics of the Personal Income Tax in Ontario 1972-1974

Ministry of Treasury, Economics and
Intergovernmental Affairs

Taxation and Fiscal Policy Branch

Ontario Proposals For Tax Reform In Canada

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| I Hon. Charles MacNaughton | Ontario Proposals for Tax Reform
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Ontario Tax Studies (Staff Papers)

1. Analysis of the Federal Tax Reform Proposals
2. Effects of Ontario's Personal Income Tax Proposals
3. Technical Study on Tax Reform and Small Business
4. Tax Reform and Revenue Growth to 1980
5. Technical Study on Integration
6. Pensim: Canada Pension Plan Simulation Model
7. Analysis of Income and Property Taxes in Guelph
8. Federal-Provincial Shared-Cost Programs in Ontario
9. The Dynamic Impact of Indexing the Personal Income Tax
10. Cost of the Federal Guaranteed Income Proposal
11. Regional Government in Perspective: A Financial Review
12. Major Growth Characteristics of the Personal Income
Tax in Ontario: 1972-1974

Preface

Effective January 1, 1972, a new era in income taxation in Canada began. After several years of intensive study by both the public and private sectors, the reformed and expanded income tax system became law. Considerable time and effort has since been expended comparing the old and new systems in order to evaluate the impact of tax reform. The difficulties of this important work are compounded by the substantial post-reform tax changes introduced subsequent to 1972.

This paper, which is number 12 in a series of Ontario Treasury staff studies on taxation, provides information that is essential in coming to grips with the impact of tax reform in the province of Ontario. It presents for the first time basic tax data on the first three years of tax reform, 1972-1974, and describes the major growth characteristics of the reformed tax system. While the paper analyzes the impact of some of the more important post-reform changes, it does not evaluate reform as such. A forthcoming Ontario tax study will provide a detailed analysis of the pre- and post-reform personal income tax system in Ontario in terms of equity, incidence and revenue generating capacity.

The study has been prepared under the guidance of Mr. B. Jones, Director, Taxation and Fiscal Policy Branch, by Tom Sweeting, Don Black, Harry Newton and Sam Chan.

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Introduction

In 1971, the Canadian income tax system underwent a fundamental reform. Major changes were introduced to both the personal and corporation income taxes. In the intervening period, a number of important post-reform changes have also been made. Consequently, the revenue generating capacity of the current tax system, its equity and incidence reflects both the impact of reform itself and other subsequent changes.

This publication provides information on the growth characteristics of the personal income tax in Ontario over the first three years following tax reform. It does not attempt to evaluate reform as such, nor does it provide very detailed cross classifications of the taxpaying public.¹ Instead, it displays the growth characteristics that have emerged and the directions in which the major aggregates appear to be moving. This information is essential to an understanding of the dynamics of the personal income tax system in Ontario.

The first chapter gives an overview of the relative importance and growth of the various sources of income and the extent to which available tax deductions have been utilized. The next two chapters examine the structure and incidence of the personal income tax and the effective tax rates by income class. Chapter 4 discusses the Ontario tax credit system and its progressive impact on reducing tax burdens.

The next three chapters highlight specific aspects of the personal tax system in Ontario. Chapter 5 discusses the growth and distribution of employment income—the largest single component of the tax base. Chapter 6 analyzes the preferential tax treatment accorded to income from capital gains, dividends and interest. Finally, in recognition of the importance of tax changes which have been introduced to encourage savings, tax deferral mechanisms available to taxpayers are analyzed in Chapter 7.

¹A forthcoming Ontario Tax Study will examine the impact of tax reform on Ontario taxpayers and on income tax revenue.

Chapter 1: Major Growth Characteristics— 1972, 1973 and 1974

This chapter examines the major kinds of income reported for tax purposes and the tax deductions claimed in Ontario from 1972 to 1974. To provide a broader perspective, the growth in the Provincial and federal governments' shares in the total personal income tax generated in Ontario and the proportion of Canada-wide federal personal income tax which comes from the province are also examined.

Growth in Income

Table 1-1 shows the magnitudes and growth of the various sources of income reported for tax purposes. Employment earnings are the major source of income in the province, representing 80 per cent of total income reported in the period. Investment income and pension income are the next most important sources, together accounting for 10 per cent of total income. Nearly all the major components of reported income exhibited substantial growth between 1972 and 1974, reflecting the strong performance of the Ontario and national economies. While the total number of tax returns increased only 11.7 per cent over the period, total income increased by over 38 per cent.

A substantial part of this large increase in total income is accounted for by the rapid growth in *employment income*, which increased by almost 33 per cent. This strong performance can be attributed to the vigorous employment growth and escalating wage settlements experienced in Ontario from 1972 to 1974. On the wage side, mounting inflationary pressures influenced the growth in employment earnings as workers sought to maintain the purchasing power of their income.

The rapid growth in *investment income* of 63 per cent also reflects the buoyancy of the Ontario economy and the accompanying expansion in business profits. A general inflation-based trend towards higher interest rates, as well as an increasing preference for low risk savings and investment, produced strong growth in the various sources of interest income, particularly bank interest. Between 1972 and 1974, bank interest grew more rapidly than any other income source, increasing by 26 per cent in 1973 and 75 per cent in 1974. The especially strong growth in bank interest income in 1974 is partly attributable to the introduction in that year of the deduction from income of up to \$1,000 in annual interest income. This new tax shelter for interest income appears to have caused a shift by taxpayers from other sources of investment income to bank interest and bond interest.

Income Reported in Ontario for Income Tax Purposes

Table 1-1

	1972	1973	1974	Per Cent Increase 1973/1972	Per Cent Increase 1974/1973
<i>Tax Returns</i>					
Number of taxable returns (000)	3,242	3,447	3,626	6.3	5.2
Total number of returns (000)	4,174	4,427	4,662	6.1	5.3
<i>Income Sources (\$ million)</i>					
Total Employment Earnings	22,695	25,909	30,184	14.2	16.5
Total Unemployment Insurance Benefits	539	586	564	8.7	-3.8
Pension Income:					
—Old Age Security Payments ¹	474	596	762	25.8	27.8
—Private Pension Benefits	494	587	700	18.9	29.3
—CPP/QPP Benefits	81	117	162	44.3	38.5
Sub-Total	1,049	1,300	1,624	23.9	24.9
Net Business Income ²	748	884	1,038	18.2	17.4
Net Professional Income ²	671	820	917	22.2	11.8
Net Farming & Fishing Income ²	160	242	323	50.9	33.4
Investment Income:					
—Calculated Capital Gains ³	72	112	116	53.2	3.6
—Taxable Dividends ⁴	411	488	578	18.7	18.4
—Bond Interest	225	255	302	13.4	18.4
—Bank Interest	568	718	1,252	26.4	74.4
—Mortgage Interest	238	274	291	15.1	6.2
—Other	201	219	255	9.0	16.4
Sub-Total	1,715	2,066	2,794	20.5	35.2
Other Sources of Income ⁵	359	447	1,222	24.5	173.4
Total Income	27,936	32,254	38,666	15.5	19.9

¹This figure does not represent total OAS paid to Ontario pensioners, but only OAS reported for tax purposes. Many recipients of OAS did not file an income tax return since they did not receive enough income to be taxable and did not apply for an Ontario tax credit. For complete statistics on OAS payments see "Health and Welfare Services in Canada", Health and Welfare Canada.

²Net Income refers to gross income from source less allowable costs and expenses and capital cost allowance.

³Calculated Capital Gains are one-half of net gains (gross gains less allowable losses).

⁴Taxable dividends are actual dividends grossed up by one-third.

⁵Other income sources includes net commissions from self-employment, net rental income, scholarships and bursaries, alimony, and family allowances (for 1974 only).

Table 1-1 also shows that capital gains accounted for only a minor portion of investment income.

All sources of *income from pensions* exhibited very strong growth over the period, rising substantially faster than employment earnings. The table shows that in 1973 the increase was 24 per cent, and in 1974 a 25 per cent gain was recorded. There are a number of factors which help explain this exceptional performance. First, the number of

pensioners filing tax returns increased by 11 per cent annually, from 495,000 in 1972 to 607,000 filers in 1974. This increase reflects not only the natural increase in the number of persons aged 65 years and over, but also the impact of enrichments to the Ontario Tax Credit System. These enrichments provided substantially larger credits for pensioners, thereby inducing pensioners without taxable incomes to file tax returns in order to claim full credit refunds.² Second, in addition to the increase in elderly filers, there was a general rise in the level of pension benefits paid. Canada Pension Plan benefits increased substantially over the period, during which the CPP was in a phase-in stage, with full benefits becoming payable in 1976. As well, inflation-indexing became more widespread in public and private sector pension schemes—including the federal Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

The *income of self-employed professionals and businessmen* increased 38 per cent from 1972 to 1974, outstripping the growth rate of employment earnings. As the number of taxfilers in these occupations did not increase significantly, the income growth was principally a result of productivity gains and increased levels of compensation. In particular, increased demand for professional services, higher professional fees, and an improved market for retail and wholesale business were major factors. The huge increase in *farming and fishing income* is explained by higher prices for food products and the resultant profit recovery for producers.

Growth in Deductions

Table 1-2 shows the major exemptions and deductions claimed by Ontario taxfilers in 1972, 1973 and 1974. As would be expected, those exemptions and deductions which are generally available are by far the most significant in terms of offsets against income. General exemptions—the basic personal, married (or married equivalent), dependent and age/disability exemptions—alone account for approximately three-quarters of total deductions. General deductions account for a further 9.5 per cent. The remaining portion represents optional deductions which are earned by taxpayers incurring particular kinds of expenditures or contributions.

Despite the overriding significance of the general exemptions in reducing income brought to tax, they declined in relative importance over the period from 78 per cent of total deductions to 71 per cent. This decline is explained by two factors.

First, the married and dependent exemptions grew quite slowly. The fact that more women were working and consequently filing as single rather than being claimed by their spouses partially explains the low growth in the married exemption. As well, increased numbers of

²A forthcoming Treasury staff study on the Ontario Tax Credit System will analyze further the impact of the credits on Ontario taxfilers.

Deductions and Exemptions Claimed in Ontario for Income Tax Purposes

Table 1-2

	1972	1973	1974	Per Cent Increase 1973/1972	Per Cent Increase 1974/1973
<i>Tax Returns</i>					
Number of taxable returns (000)	3,242	3,447	3,626	6.3	5.2
Total number of returns (000)	4,174	4,427	4,662	6.1	5.3
<i>Deduction Components (\$ million)</i>					
General Exemptions:					
— Basic Personal	6,224	7,044	7,896	13.2	12.1
— Married or Equivalent	1,364	1,414	1,481	3.7	4.7
— Dependents	934	930	970	-0.4	4.3
— Aged and Disability	501	555	662	10.8	19.3
Sub-Total	9,023	9,943	11,009	10.2	10.7
General Deductions:					
— Standard Deduction	369	396	417	7.3	5.3
— CPP Contributions	236	258	313	9.3	21.3
— UIC Contributions	111	156	270	40.5	73.1
— General Employment Expense (3%)	388	415	448	7.0	8.0
Sub-Total	1,104	1,225	1,448	11.0	18.2
Optional Deductions:					
— Itemized Employment Expense	133	166	209	24.8	25.9
— Registered Pension Plan Contributions	404	445	506	10.1	13.7
— RRSP Contributions	271	369	487	36.2	32.0
— Union and Professional Dues	88	99	116	12.5	17.2
— Medical Expenses	45	44	48	-2.2	9.1
— Charitable Donations	166	186	208	12.0	11.8
— RHOSP Contributions	—	—	84	—	—
— Interest Deduction	—	—	796	—	—
Sub-Total	1,107	1,309	2,454	18.2	87.5
Other Deductions ¹	338	458	571	35.5	24.7
Total Deductions	11,572	12,935	15,482	11.8	19.7

¹Other deductions include union dues, tuition fees, child care expenses, carrying charges, moving expenses, alimony paid, income averaging annuity premiums and the education deduction.

and incomes of temporarily employed spouses, which decreases the value of the married exemption, also helped restrain the growth of this exemption. The total value of exemptions claimed in respect of dependents exhibited a similar lack of growth. This trend is the result of the declining number of children 14 years of age and under, particularly in the 5-9 years of age group. It is also likely that the deductions for dependents has been reduced by teenagers who earned incomes in excess of the income ceiling for maximum deductions or who earned sufficient income to be no longer classed as "dependent".

Second, the lag in the growth of general exemptions behind the growth in total exemptions and deductions is further explained by the

very rapid growth of other deductions, two of which were newly introduced in 1974. For example, Table 1-2 shows that deductions claimed in respect of Unemployment Insurance, Registered Retirement Savings Plans and Itemized Employment Expenses grew substantially faster than total deductions. However, the absolute amount involved with these deductions was relatively small. More significant was the introduction of the \$1,000 interest income deduction and the deduction for contributions to Registered Home Ownership Savings Plans. Together, these new provisions created \$880 million in deductions from income, with the interest income deduction alone accounting for about \$800 million.

Growth in Tax Payable

Table 1-3 shows total tax payable in Ontario in 1972, 1973 and 1974. Both Provincial tax payable and federal tax payable grew at a slower rate than taxable income due to discretionary tax changes on the part of the federal government and the Government of Ontario. Nevertheless, the growth in tax payable was still substantial throughout the period. A discussion of these discretionary tax moves is contained in Chapter 2.

Total Tax Payable in Ontario
(\$ million) Table 1-3

	1972	1973	1974	Per Cent Increase 1973/1972	Per Cent Increase 1974/1973
Taxable Income	17,288	20,357	24,372	17.8	19.7
Basic Federal Tax	3,816	4,515	5,385	18.3	19.3
Provincial Income Tax ¹	1,163	1,375	1,639	18.2	19.2
Tax Offsets					
Dividend Tax Credit ²	77	92	108	19.5	17.4
Foreign Tax Credit	20	23	31	15.0	34.8
Ontario Tax Credits	178	296	385	66.3	30.1
Federal Tax Payable ³	3,690	4,129	4,825	11.9	16.9
Ontario Tax Payable ⁴	949	1,079	1,254	13.7	16.2
Total Tax Payable	4,639	5,208	6,079	12.3	16.7

¹Provincial income tax is 30.5% of basic federal tax. Basic federal tax is after the dividend tax credit and any tax adjustments.

²Chapter 6 contains a discussion of the mechanics and performance of the dividend tax credit.

³Federal tax payable in Ontario is basic federal tax less the federal tax reduction and the foreign tax credit. For 1972, the tax reduction was 3% and for 1973, the reduction was 5%, with a minimum of \$100 and a maximum of \$500. For 1974, the cut was expanded to include a \$150 minimum reduction. The portion of the foreign tax credit that exceeds the reduced federal tax payable is not refundable.

⁴1972 Ontario tax payable is Ontario income tax less the 3% tax cut, which effectively lowered Ontario's tax rate from 30.5% of basic federal tax to 29.6% of basic federal tax, and less Ontario Tax Credits. 1973 and 1974 Ontario tax payable is basic Ontario tax less Ontario Tax Credits.

Table 1-4

	1972			1973			1974		
	Ontario	Canada	Ontario as a % of Canada	Ontario	Canada	Ontario as a % of Canada	Ontario	Canada	Ontario as a % of Canada
Population (000)	7,825	21,830	35.8	7,939	22,095	35.9	8,094	22,446	36.1
Number of tax returns (000)	4,174	10,382	40.2	4,427	11,004	40.2	4,662	11,602	40.2
Total Income (\$ million)	27,937	66,249	42.2	32,254	77,751	41.5	38,666	94,785	40.8
Total Deductions (\$ million)	11,572	29,222	39.6	12,935	32,694	39.6	15,482	38,925	39.8
Total Taxable Income (\$ million) ¹	17,288	39,208	44.0	20,357	47,131	43.2	24,372	58,379	41.7
Total Federal Tax Payable (\$ million)	3,690	7,797	47.3	4,129	8,834	46.7	4,825	10,616	45.5

¹ Taxable income does not equal total income minus total deductions because taxable income is set to zero if it is a negative amount.

¹Taxable income does not equal total income minus total deductions because taxable income is set to zero if it is a negative amount.

Ontario-Canada Comparison

Table 1-4 documents that a large portion of income tax revenue collected in Canada is generated in Ontario. From 1972 to 1974, Ontario accounted for about 41 per cent of total income reported in Canada and over 42 per cent of taxable income, while having only 36 per cent of the total population and 40 per cent of total tax returns. Because of the progressive structure of the income tax, Ontario residents paid over 45 per cent of the total income tax payable to the Government of Canada. However, Table 1-4 also indicates that the province's proportion of taxable income and federal tax payable within Canada declined over the period.

Chapter 2: The Changing Structure of the Personal Income Tax

The taxation of personal income has evolved from the major reform of the income tax structure effected in 1972.³ With its progressive rates based upon a sliding scale of taxable income, the tax is extremely responsive to variations in income. But as indicated previously, both total personal income and total taxable personal income grew faster than tax payable for both levels of government from 1972 to 1974. The many changes and modifications to the income tax introduced by both the Government of Ontario and the federal government resulted in this slower growth in tax payable. These changes had two main thrusts: (a) a reduction in taxes generally to reduce the burden of taxation and (b) an alteration in the income distribution of income taxation to improve the vertical equity of the tax. The remainder of this chapter and the next chapter examine these changes and their impact. An appendix to this paper illustrates the calculation of income tax payable.

Modifications to the System

In 1972, both Ontario income tax and federal income tax were subject to a temporary 3 per cent reduction in basic tax. The Ontario tax cut effectively lowered the province's rate of income tax from 30.5 per cent of federal basic tax to 29.58 per cent. In the same year, Ontario introduced a property tax credit program which further reduced income tax for many Ontario taxpayers. This program linked property taxation to ability-to-pay via the income tax system and thereby increased the overall progressivity of the tax system in Ontario.

The potential amount of revenue from income taxation grew rapidly from 1972 to 1973. Taxable income expanded by 17.6 per cent and this would have yielded an increase of almost 20 per cent in tax collections without tax cuts. However, personal exemptions were increased and the federal government increased its tax cut to 5 per cent with a \$100 minimum. Although Ontario did not continue its tax cut, the Province substantially expanded and enriched its tax credit program by adding a sales tax credit and pensioner credit to its property tax credit and increasing the maximum credit allowed. These combined actions served to curb potential revenue growth, with a resulting actual increase of 12 per cent from 1972 to 1973.

³A concise summary of how the system was reformed can be found in the Hon. E. J. Benson, *Summary of 1971 Tax Reform Legislation* released by Finance Canada. See also the forthcoming Ontario Treasury study.

Further modifications to the tax system followed in 1974. The federal change of greatest significance was the indexing of personal exemptions and tax brackets. Indexing serves to reduce income tax revenue growth resulting from inflation-based increases in income. For 1974, tax brackets and personal exemptions were 6.6 per cent higher than in 1973.⁴ This change to the tax structure will have long-term implications for the revenue-generating capabilities of the tax and its value as an automatic stabilizer.

A number of other important changes were also introduced by the federal government in 1974. The first \$1,000 of interest income and up to \$1,000 in annual contributions to a Registered Home Ownership Savings Plan were deductible from taxable income. In addition, the minimum reduction of federal tax was increased from \$100 to \$150 with the intermediate and maximum reductions held to 5 per cent of federal tax and \$500 respectively. Because of the piggy-back nature of Ontario's personal income tax system, these provisions, save for the reduction of tax payable, were paralleled by the Government of Ontario. As well, the Government of Ontario further enriched its tax credit program by increasing the property tax credit, the pensioner credit and the maximum credit allowed. The result of these changes was a 16.7 per cent increase in tax for 1974 in spite of a 19.7 per cent increase in taxable income.

Distribution of Income Tax Payable in Ontario

The distribution of total tax paid by income class is shown in Table 2-1. It is apparent that the distribution of the Ontario income tax burden became more progressive from 1972 to 1974. Taxfilers with less than \$10,000 gross income accounted for 80 per cent of all taxfilers and paid 31 per cent of Ontario income tax in 1972. Two years later, that same group represented 70 per cent of all filers and paid only 6 per cent of Ontario's total income tax. For the average taxfiler in the under \$10,000 income group, this meant a decrease of 38 per cent in tax paid in 1974 as compared to 1972 (\$323 versus \$519).

By jurisdictional comparison, Ontario filers in the under \$10,000 income group paid 30 per cent less federal tax and 74 per cent less Ontario income tax in 1974 as compared to 1972. One effect of tax reform was to reduce burdens at the lower end of the income scale. This progressive impact has been amplified by the Ontario tax credit system. By 1974, the more than 3 million taxfilers in the under \$10,000 income group paid only \$74 million in tax and indeed, for many, credits exceeded liabilities.

⁴A detailed discussion of indexing and preliminary estimates of its impact on tax revenue can be found in *The Dynamic Impact of Indexing the Personal Income Tax*, Ontario Tax Studies 9, (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

Income Distribution of Income Tax in Ontario

Table 2-1

Income	Number of Taxfilers	Federal Tax Payable ¹	Ontario Tax Payable ²
(\$000)	(000)	(\$ million)	(\$ million)
<i>1972</i>			
0-5	1,933	244	0
5-10	1,393	1,195	290
10-12	339	516	139
12-15	253	503	144
15-20	147	416	124
20-25	49	203	62
25-35	33	198	61
35-50	15	147	45
50-75	8	128	39
75+	4	146	45
Total	4,174	3,690	949
<i>1973</i>			
0-5	1,926	136	-63
5-10	1,409	1,085	272
10-12	393	568	156
12-15	344	661	190
15-20	205	562	170
20-25	69	274	87
25-35	44	259	83
35-50	20	193	62
50-75	10	167	53
75+	6	223	69
Total	4,427	4,129	1,079
<i>1974</i>			
0-5	1,822	65	-133
5-10	1,373	895	207
10-12	433	572	158
12-15	466	836	247
15-20	336	867	271
20-25	112	421	135
25-35	68	377	121
35-50	28	258	83
50-75	14	214	68
75+	8	320	99
Total	4,662	4,825	1,254

¹Federal tax payable includes the effect of the applicable federal tax reduction.²Ontario tax payable includes the effect of the Ontario tax credit system.

Note: Totals may not add due to rounding.

Chapter 3: Effective Personal Income Tax Rates in Ontario

This chapter analyzes effective personal income tax rates under the Ontario income tax system. *The effective tax rate for a taxpayer* is the fraction of total personal income which is paid in income tax. This measure is commonly called the incidence or burden of the income tax.

The distribution of total income reported for tax purposes for 1972-1974 is shown in Table 3-1. By far the greatest number of taxpayers, and the bulk of income reported for tax purposes, is found in the lower income groups. However, from the table it is also apparent that the distribution of income shifted upwards over time. This shifting is highlighted in Chart 1, which shows the "pyramid of income" (the distribution of taxpayers by income class) in Ontario for 1967 and 1974. A comparison of the two distributions indicate that in 1967, only 8 per cent of all taxpayers reported gross income in excess of \$10,000. By 1974, this percentage had jumped to almost 41 per cent. The marked increase in personal incomes reflects both real growth resulting from productivity increases and nominal growth resulting from inflation.

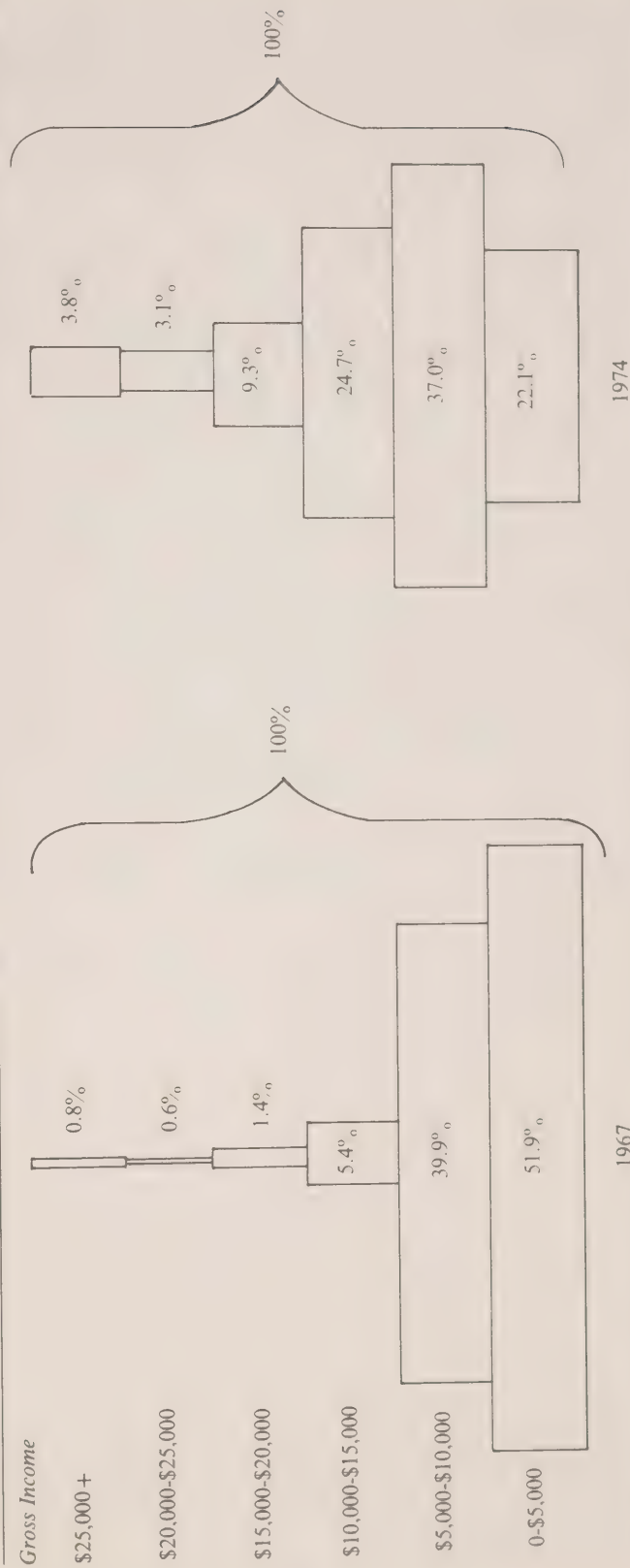
Using the total income figures shown in Table 3-1, Table 3-2 sets out the effective tax rates of both the federal and Ontario personal

Total Income Reported for Tax Purposes in Ontario Table 3-1

Income Class	Income in Each Class		
	1972	1973	1974
(\$000)		(\$ million)	
0-5	4,583	4,578	4,354
5-10	10,221	10,341	10,120
10-12	3,703	4,302	4,757
12-15	3,366	4,577	6,227
15-20	2,509	3,489	5,728
20-25	1,089	1,523	2,478
25-35	944	1,292	1,977
35-50	604	834	1,167
50-75	452	619	830
75+	463	699	1,028
Total	27,936	32,254	38,666
Average Income (\$)	6,692	7,286	8,293

Percentage Distribution of Ontario Taxpayers
by Income 1967 and 1974

Chart I



income tax systems for all three years. In 1973, for example, taxpayers in the \$5,000-\$10,000 income class reported aggregate personal income of \$10.3 billion and paid \$374 million in Ontario personal income tax less \$102 million in Ontario tax credits. Thus, the effective tax rate of Ontario personal income tax for that income class was \$272 million/\$10.3 billion, or 2.6 per cent.

From Table 3-2, it is clear that while effective tax rates rise with taxable income, they in fact declined from 1972 to 1974 for each income class. This latter development shows the effectiveness of the tax measures introduced by both Ottawa and the Province outlined earlier in Chapter 2. In 1974, the introduction of indexing and the interest and RHOSP deductions and the increase in the tax cut proved to be particularly powerful in that the effective tax rate for each income group declined by at least one full point from 1973. In terms of the average taxpayer, this meant at least a \$10 personal income tax saving for every \$1,000 of reported gross personal income.

The impact of the Ontario tax credit program on effective tax rates is shown in Table 3-3. While it is evident from Table 3-2 that the general tax modifications undertaken over the period had broad and ubiquitous effects, it is equally clear that the Ontario credits had a concentrated and specific impact. The Ontario tax credits are concentrated in the lower income ranges and disappear entirely above \$20,000 income for all but a few filers. Therefore, the progressivity of the personal income tax system has been greatly enhanced.

Effective Income Tax Rates in Ontario
(per cent)

Table 3-2

Income Class (\$000)	Federal			Ontario			Combined		
	1972	1973	1974	1972	1973	1974	1972	1973	1974
0-5	5.3	3.0	1.5	0.0	-1.4	-3.1	5.3	1.6	-1.6
5-10	11.7	10.5	8.8	2.8	2.6	2.0	14.5	13.1	10.8
10-12	13.8	13.2	12.0	3.7	3.6	3.3	17.5	16.8	15.3
12-15	14.9	14.4	13.4	4.3	4.2	4.0	19.2	18.6	17.4
15-20	16.6	16.1	15.1	4.9	4.9	4.7	21.5	21.0	19.8
20-25	18.6	18.0	17.0	5.7	5.7	5.4	24.3	23.7	22.4
25-35	21.0	20.1	19.1	6.4	6.4	6.1	27.4	26.5	25.2
35-50	24.3	23.3	22.1	7.4	7.4	7.1	31.7	30.7	29.2
50-75	28.3	27.3	25.8	8.6	8.5	8.2	36.9	35.8	34.0
75+	31.5	32.3	31.1	9.7	9.9	9.6	41.2	42.2	40.7
Average	13.2	12.8	12.5	3.4	3.3	3.2	16.6	16.1	15.7

Notes: 1. The effective tax rate for each income bracket is calculated as total income tax paid divided by total income reported. It is an average of the tax burden of all taxpayers in any given bracket.

2. It should be noted that not all taxpayers claimed a credit. The overall value of the credit was subtracted from tax payable of all filers in order to represent the average filer. To develop an accurate picture of the impact of the credit, see Chapter 4.

Effective Ontario Personal Income Tax Rates
Before and After Tax Credits
(per cent)

Table 3-3

Income	Before Tax Credits			After Tax Credits		
	1972	1973	1974	1972	1973	1974
(\$000)						
0-5	1.6	1.4	1.1	0.0	-1.4	-3.1
5-10	3.6	3.6	3.3	2.8	2.6	2.0
10-12	4.2	4.3	4.1	3.7	3.6	3.3
12-15	4.6	4.7	4.4	4.3	4.2	4.0
15-20	5.1	5.2	4.9	4.9	4.9	4.7
20-25	5.7	5.8	5.5	5.7	5.7	5.4
25-35	6.4	6.4	6.1	6.4	6.4	6.1
35-50	7.4	7.4	7.1	7.4	7.4	7.1
50-75	8.6	8.5	8.2	8.6	8.5	8.2
75+	9.7	9.9	9.6	9.7	9.9	9.6

Chapter 4: The Ontario Tax Credit System

As part of the Government of Ontario's commitment to tax reform, the Province introduced a refundable property tax credit system in 1972.⁵ Designed to operate within the framework of the income tax system to reduce property tax burdens, the Ontario tax credit system was viewed, at that time, as an adaptable mechanism which could eventually embrace other taxes and target groups and thereby improve the overall equity of taxation in Ontario.⁶ During the 1972 to 1974 period, the system was, in fact, expanded and benefits were substantially increased.⁷

Table 4-1 displays the additions and changes to the tax credit system over its first three years of operation. As the table shows, for the 1972 taxation year, credit entitlement was related solely to the property tax and was determined by both taxable income and occupancy cost, the latter being defined as 100 per cent of property taxes for those owning and residing in a principal residence and 20 per cent of total rent for those renting. Credit entitlement, for any given occupancy cost, is inversely related to taxable income and thereby links property taxes to ability-to-pay.

Ontario Tax Credit Structure Table 4-1

	Property Tax Credit	+	Sales Tax Credit	+	Pensioner Tax Credit	-	Taxable Income Offset	Maximum Credit
1972	\$90 + 10 per cent of occupancy cost		—		—		1 per cent	\$250
1973	\$90 + 10 per cent of occupancy cost		1 per cent of personal exemptions		\$100		1 per cent	\$400
1974	\$180 + 10 per cent of occupancy cost		1 per cent of personal exemptions		\$110		2 per cent	\$500

Note: If occupancy cost is less than the basic credit of \$90 (or \$180 in 1974), the basic credit is set equal to occupancy cost.

⁵This chapter presents only a relatively brief overview of the system and its performance. A forthcoming Treasury study will examine the system in detail.

⁶See The Honourable C. S. MacNaughton, "The Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969).

⁷See Honourable W. D. McKeough, *Ontario Budget 1972*; Honourable John White, *Ontario Budget 1973* and *Ontario Budget 1974*.

In 1973, the tax credit system was expanded to include a sales tax credit, and a special pensioner credit for taxfilers over 65 years of age. This expansion was designed to further improve the progressivity of Ontario's tax system by reducing the burden of taxation on those Ontarians who were either low income earners, aged or both. And in 1974, the credit structure was reformed to increase the dollar value of benefits and ensure an equitable distribution of these benefits.

The following tables present a statistical overview of the Ontario tax credits. Table 4-2 shows the value of tax credits in Ontario over the period. The strong growth in credit payments and in the number of credit recipients results from the changes to the system and the system's sensitivity to certain dynamic variables. Table 4-3 indicates the distribution of credits by income class, highlighting the progressive nature of the system. Table 4-4 illustrates the sizes of credits claimed in each year.

Value of Tax Credits in Ontario

Table 4-2

	Total Taxfilers	Total Credit Recipients	Total Value of Credits	Average Value of Credits
	(000)	(000)	(\$ million)	(\$)
1972	4,174	2,329	178	77
1973	4,427	2,843	296	104
1974	4,662	2,898	385	133

Distribution of Ontario Tax Credits by Income Class Table 4-3

Income	Number of Recipients			Value of Credits		
	1972	1973	1974	1972	1973	1974
(\$000)		(000)			(\$ million)	
0-5	737	1,021	1,118	75	130	180
5-10	947	935	816	73	102	127
10-12	300	344	348	17	29	36
12-15	225	312	395	10	23	30
15-20	102	175	200	3	10	10
20-25	14	42	18	—	2	1
Total	2,325	2,829	2,895	178	296	385

Note: Taxfilers reporting more than \$25,000 income and claiming a credit are excluded due to a lack of reliable data.

Distribution of Ontario Tax Credits by
Value of Credit

Table 4-4

Value of Credit	Number of Recipients		
	1972	1973	1974
(\$)		(000)	
0-25	162	271	420
25-50	360	255	279
50-75	624	439	259
75-100	584	619	304
100-125	450	486	314
125-150	115	281	301
150-175	23	95	197
175-200	6	49	152
200-225	2	81	140
225-250	2	185	134
250-275	—	67	74
275-300	—	11	52
300-350	—	3	165
350-400	—	1	103
400-500	—	—	4

Chapter 5: Employment Income

Income derived from employment and unemployment insurance benefits are discussed in this chapter.

Income from employment is by far the most important income source in the province. As defined for tax purposes, it includes wages and salaries, commissions from employment, taxable allowances, adult training allowances, tips, gratuities and net research grants. It does not include income derived from self-employment. Table 5-1 shows employment earnings by major source.

Composition of Employment Income (\$ million)		Table 5-1	
	1973	1974	
Wages and salaries	24,934	29,054	
Commissions from employment	588	705	
Taxable allowances	350	381	
Other	37	44	
Total	25,909	30,184	

Table 5-2 shows that in 1972, 3,421,000 filers or 82 per cent of all filers of personal income tax returns reported income from employment. Total income from employment then was \$22.7 billion, or 81.2 per cent of all personal income reported for tax purposes in Ontario. Average employment income reported was \$6,634. In 1973 and 1974, the number of filers reporting income from employment increased to 3,582,000 and 3,740,000 respectively. Total earnings from employment rose from \$22.7 billion in 1972 to \$30.2 billion in 1974. However, because of the relatively stronger growth of non-employment income and of the number of filers reporting non-employment income, the share of total income accounted for by employment earnings declined over the period—from 81.2 per cent in 1972 to 78.1 per cent in 1974. Nevertheless, average employment earnings increased to over \$8,000.

Table 5-2 also illustrates the distribution of earnings from employment by income class. A substantial proportion of all taxfilers in every income bracket reported income from employment. The highest concentration of such filers was in the \$5,000 to \$20,000 gross income range. While the percentage of filers reporting employment income remained high for filers in the upper income brackets, employment income as a percentage of total income reported fell noticeably for these filers. Over the period, the largest increase in the number of filers reporting employment income occurred in the \$15,000 to \$50,000 income group.

At the same time, employment earnings as a percentage of all income reported by these groups also grew over the period. This strong upward trend in employment earnings and the movement of taxfilers into higher income brackets is a reflection both of rising employment and substantial increases in wages and salaries.

Income Distribution of Employment Earnings Table 5-2

Income	Number of Filers with Employment Income	Filers Reporting Employment Income as a % of all Filers in Income Class	Total Employment Earnings	Employment Earnings as a % of all Income in Class
(\$000)	(000)		(\$ million)	
<i>1972</i>				
0-5	1,352	70.0	3,085	67.3
5-10	1,287	92.4	8,946	87.5
10-12	322	95.1	3,359	90.7
12-15	239	94.2	3,015	89.6
15-20	134	91.1	2,124	84.7
20-25	43	86.8	846	77.7
25-35	26	77.6	631	66.8
35-50	10	69.1	311	51.6
50-75	5	64.0	193	42.1
75+	3	69.0	185	40.1
Total	3,421	82.0	22,695	81.2
<i>1973</i>				
0-5	1,294	67.2	2,968	64.8
5-10	1,283	91.1	8,880	85.9
10-12	371	94.5	3,872	90.0
12-15	324	94.1	4,093	89.4
15-20	189	92.3	3,017	86.5
20-25	60	87.1	1,193	78.4
25-35	36	80.1	882	67.5
35-50	14	68.3	430	52.0
50-75	7	63.9	265	43.2
75+	4	70.6	309	44.6
Total	3,582	81.0	25,909	80.3
<i>1974</i>				
0-5	1,170	64.3	2,655	61.0
5-10	1,216	88.6	8,264	81.6
10-12	410	94.5	4,169	87.6
12-15	440	94.4	5,436	87.3
15-20	313	93.0	4,889	85.4
20-25	100	89.1	1,966	79.3
25-35	56	82.0	1,361	68.9
35-50	20	71.5	632	54.2
50-75	9	63.3	352	42.5
75+	6	70.9	460	44.7
Total	3,740	80.2	30,184	78.1

Note: Employment income excludes earnings from self-employment.

In contrast to the increases recorded in the middle and upper income ranges, the lower income brackets, as displayed in Table 5-2, showed a decline both in the number of filers with employment income and in the importance of employment income over the period. This development is to be expected because of the natural upward movement of filers through the income brackets as employment and incomes grow. Consequently, the dominance of the non-employed (or part-time employed) group in the lowest income bracket is magnified. For example, in 1973, pensioners represented 20 per cent of all filers in the lowest income bracket but only 7 per cent of these pensioners reported employment income, compared to 82 per cent of all non-pensioner filers in this income bracket. In total, approximately 580,000 filers in the lowest income bracket reported no earnings from employment and 367,000 of these filers were pensioners. In 1974, pensioners represented 23 per cent of all filers in this bracket. Only slightly over 5 per cent of these pensioners reported employment income, while the percentage of non-pensioners reporting employment income remained at 82 per cent. A similar phenomenon, though of somewhat smaller impact, is present in the \$5,000 to \$10,000 income bracket. Beyond this income level, pensioners represented a very small percentage of filers.

Unemployment Insurance

Although incomes earned by employed persons generate the largest portion of taxable income, the unemployment insurance benefits paid to the unemployed are also brought into the tax base. On the other hand, U.I.C. contributions are tax deductible. The inclusion of U.I.C. contributions and benefits in the tax system has important implications for the overall equity and stability of the personal income tax.

Under the Canadian unemployment insurance system, the level of benefits received is based on previous earnings and length of employment, with statutory maximum limits on the amount of benefits and length of time benefits may be received. The system is partly funded by the contributions of employed filers based primarily on the amount of employment income.

Table 5-3 illustrates the distribution of unemployment insurance benefits reported by taxfilers by income class for 1972, 1973 and 1974. In percentage terms, 14 per cent of all taxfilers reported unemployment insurance benefits for both 1972 and 1973, while the proportion declined to 13 per cent for 1974. The total value of benefits reported was \$539 million in 1972, \$586 million in 1973, and \$564 million in 1974; or between 1.5 per cent and 2 per cent of all income earned in Ontario each year. As expected, the number of filers reporting unemployment insurance benefits is concentrated in the under \$10,000 income range, since lower income earners are more vulnerable to unemploy-

Distribution of Taxable UIC Benefits
by Income Class

Table 5-3

Income	1972		1973		1974	
	Number of Filers Claiming Benefits	Average Benefit Value	Number of Filers Claiming Benefits	Average Benefit Value	Number of Filers Claiming Benefits	Average Benefit Value
(\$000)	(000)	(\$)	(000)	(\$)	(000)	(\$)
0-5	356	919	358	911	290	907
5-10	184	976	203	1,001	221	993
10-12	24	857	31	1,028	40	889
12-15	12	667	21	894	37	823
15-20	4	607	6	766	17	675
20-25	neg.	845	1	925	3	759
25 +	neg.	813	neg.	847	1	941
All Filers	580	927	620	944	609	925

neg. = negligible amount for purpose of analysis.

ment. In addition, the longer the duration of the receipt of unemployment benefits, the lower will be the annual amount of income. However, over the period, there was also a substantial increase in the number of filers reporting U.I.C. benefits with more than \$10,000 in gross income. This reflects growth in incomes, in U.I.C. payments and an increase in the incidence of unemployment in higher paying occupations.

The number of U.I.C. claimants and average U.I.C. benefits reported for tax purposes appear to move from year to year independently of the unemployment rate. While the unemployment rate fell in 1973 from its 1972 level, the number of filers reporting U.I.C. benefits and average reported benefits increased. When the unemployment rate rose slightly in 1974, the opposite occurred. Many factors such as the duration of benefits, the overlap of benefits from one taxation year to the next and the past employment profile of persons receiving assistance all affect average benefits reported. In 1974, for instance, the average duration of benefits was shorter than in 1973. As a consequence of the shorter duration of benefits in 1974, average benefits reported declined in that year, despite a higher unemployment rate and greater maximum benefits available.

The increase in taxfilers reporting unemployment insurance benefits in 1973 (when the unemployment rate fell) reflects the fact that growing numbers of people in the labour force can result in an absolute increase in the number of jobless in spite of a decrease in the unemployment rate. Since the drop in filers reporting U.I.C. benefits in 1974, despite an increasing unemployment rate, is confined entirely to the lowest income group, the likely explanation is that indexing moved some low income U.I.C. beneficiaries to a zero tax position and negated the necessity to file a return.

UIC Contributions

Table 5-4

Income	1972		1973		1974	
	No. of Contributors	Average Value	No. of Contributors	Average Value	No. of Contributors	Average Value
(\$000)	(000)	(\$)	(000)	(\$)	(000)	(\$)
0-5	1,204	18	1,162	21	1,076	29
5-10	1,243	47	1,241	57	1,176	85
10-12	311	49	362	67	398	108
12-15	230	43	313	64	429	109
15-20	126	37	179	59	301	107
20-25	38	31	55	54	94	102
25-35	22	30	31	50	49	99
35-50	8	28	11	49	17	95
50-75	3	28	4	48	6	94
75 +	2	28	3	48	4	94

Since contributions are linked to earnings from employment, the distribution of contributors shown in Table 5-4 approximates the distribution of employment earnings by income class found in Table 5-2. Total contributions deducted by filers increased from \$111 million in 1972 to \$156 million in 1973 to \$270 million in 1974, a result of both the increase in the number of filers with income from employment and the increases in the contribution rates and the maximum level of earnings to which these rates apply.

In all three years, average U.I.C. contributions peaked at the middle income brackets (\$10,000-\$12,000 or \$12,000-\$15,000) and declined thereafter. Although this might reflect a decrease in earnings from non-insurable sources, it is more likely a structural phenomenon. Prior to 1972, certain individuals such as teachers, public employees, nurses and those in management positions, were not required to pay U.I.C. premiums. In 1972 these individuals began to contribute, with their premiums subject to the same insurable earnings ceiling as pre-1972 contributors but with their rate of contribution only 40 per cent of the regular rate. Both rates increased for each year after 1972, with the preferred rate increasing faster and reaching parity with the regular rate in 1975. Consequently, it should be expected that since a large number of individuals contributing at the reduced rate fall within higher income brackets, their average contributions would be lower. It should also be expected that since rates reached parity in 1975, data for that year will show a relatively stable average contribution through the upper income brackets.

Table 5-5 illustrates the distribution of unemployment insurance by sex and marital status for 1972, 1973 and 1974. Over the period married women comprised a growing proportion of taxfilers reporting U.I.C. benefits. In 1972, married women accounted for 32.5 per cent of taxfilers reporting benefits, while in 1974 that proportion increased to

Distribution of Taxable UIC Benefits
by Sex and Marital Status

Table 5-5

	Male		Female	
	Number	Average Benefit	Number	Average Benefit
	(000)	(\$)	(000)	(\$)
1972				
Married	202	981	189	887
Unmarried	126	989	63	753
1973				
Married	193	1,065	219	866
Unmarried	131	971	78	813
1974				
Married	187	1,008	216	879
Unmarried	129	986	77	747

35.5 per cent. The growth in the number of women in the labour force and their eligibility for maternity benefits under U.I.C. help explain the increase in women receiving benefits as unemployment itself declined. Also, the labour force participation of secondary female workers tends to be positively related to movement in the unemployment rate. Secondary female workers are those married women who work only to supplement a loss or reduction in their spouse's income and leave their employment once the spouse's income is restored.

Chapter 6: Investment Income

This chapter discusses the distribution and tax treatment of three important sources of investment income—interest income, dividend income and capital gains. Table 6-1 shows the breakdown of these sources of investment income and their growing share of total income.

Major Sources of Investment Income Reported
for Income Tax Purposes

Table 6-1

Income Source	Value			Per Cent of Total Income		
	1972	1973	1974	1972	1973	1974
	(\$ million)			(%)		
Interest	1,031	1,248	1,845	3.6	3.9	4.8
Dividends	308	365	432	1.1	1.1	1.1
Capital Gains	72	112	116	0.3	0.3	0.3
Total	1,411	1,723	2,393	5.1	5.4	6.2

The Canadian income tax system is structured in such a way as to afford preferential treatment to income from investment sources. In other words, each dollar of investment income is taxed at a lower rate than each dollar of income from employment, pensions or business income. This preference toward investment income aims to stimulate savings, encourage risk taking and broaden equity ownership of Canadian companies. As well, the reduced tax on dividend income received by shareholders offsets to some degree the double taxation of corporate profits—first at the corporate level and then at the individual level.

Table 6-2 illustrates the incentives to invest (and to save in order to generate income) which are incorporated into the income tax system.

Comparative Tax Treatment of \$100 Income from
Various Sources in 1974

Table 6-2

Taxable Income of Income Earner	Income Tax Payable (\$)			
	On \$100 of Employment Income	On \$100 of Interest Income ¹	On \$100 of Dividend Income	On \$100 of Capital Gain Income
\$ 6,000	30.00	0	5.47	15.00
12,000	40.46	0	19.35	20.23
65,000	61.34	0	47.12	30.67

¹It is assumed that the interest income received is the first \$100 of such income.

Clearly, individuals can enjoy higher after-tax proceeds if they receive their income in the form of interest, dividends or capital gains rather than as employment income.

Interest Income

Interest income became an increasingly significant source of income in Ontario from 1972 to 1974, representing almost 5 per cent of total income and 66 per cent of all investment income by 1974. Table 6-3 illustrates the popularity of the three major types of interest income—interest from bank deposits, bond holdings and mortgage holdings.

Interest Income Reported for Tax Purposes Table 6-3

	Number of Filers Reporting Interest	Average Interest Income	Total Interest Income	Interest Income as a % of Gross Income
<i>1972</i>	(000)	(\$)	(\$ million)	(%)
Bank Interest	1,712	332	568	2.03
Bond Interest	344	655	225	0.80
Mortgage Interest	165	1,439	238	0.85
Total	—	—	1,031	3.68
<i>1973</i>				
Bank Interest	1,929	372	718	2.22
Bond Interest	359	711	256	0.80
Mortgage Interest	166	1,652	274	0.85
Total	—	—	1,248	3.87
<i>1974</i>				
Bank Interest	2,223	563	1,252	3.24
Bond Interest	400	756	302	0.76
Mortgage Interest	155	1,877	291	0.76
Total	—	—	1,845	4.77

Note: Bank interest includes interest paid by all savings institutions on savings accounts and on term securities.

The large increase in the average amount of income reported from bank deposits is a reflection of comparatively high interest rates characteristic of 1973 and 1974. With respect to mortgage interest income, the decline in the number of mortgage holders illustrates a shift in public preference towards more liquid savings and less structured investments in response to inflationary pressures, while the large increase in average value again reflects increases in interest rates. The increase in average bond interest is due in part to the redemption in 1973 and 1974 of lower yield Canada Savings Bonds in favour of the more attractive new issues. At the same time, conditions in the capital market also led to interest rate increases for other bond issues.

The high levels of bank and bond interest reported for tax purposes in 1974 relative to 1973 and 1972 reflect the influence of the \$1,000

interest exemption. The surge in these types of interest income is a result of both an increase in filers with interest income from bank deposits and bonds and an increase in the average value of such income. The number of filers claiming bank interest increased by 15 per cent from 1973 to 1974 while the number of filers claiming bond interest increased by 11 per cent. In dollar terms, however, the value of bank interest reported for tax purposes increased from 1973 to 1974 by 74 per cent, while bond interest increased by a more modest, yet still sizable, 19 per cent. The stronger growth in bank interest compared to bond and mortgage interest indicates the relatively easier accessibility of bank deposits for most people who wished to alter their consumption-savings behaviour in favour of savings. The size of the exemption and the long-term commitment involved with mortgage financing, with the consequent lack of flexibility, appear to preclude mortgage investment from being particularly influenced by the \$1,000 exemption.

The distribution of interest income by income class is shown in Appendix C. The participation rate for each income class and the average income reported both increase rapidly as gross income increases. The use of savings for future transaction purposes, and the importance of savings as the "safe" portion of any portfolio, account for the dominant presence of savings in all income brackets. The seemingly high average income from interest sources reported by filers with less than \$10,000 income is influenced by the savings behavior of the large number of pensioners present in this bracket. Approximately 90 per cent of all pensioner filers reported gross income of less than \$10,000 through the period. Persons over 65 represented one out of every six filers with gross income under \$10,000 and less than 5 per cent of all filers above this income amount. At the same time, pensioners reported significantly higher average income from investment sources throughout the entire income range than did all other filers. As a result, the lower income classes have average interest income biased upwards by the behaviour of pensioners.

It is apparent from the data in Appendix C that filers in all brackets took immediate advantage of the new exemption for interest income introduced in 1974. As would be expected, however, the growth in filers and average interest income reported increased more for the upper income groups. Their higher disposable income and the accompanying greater flexibility are the major explanations for this behaviour.

Dividend Income

Dividend income is a source of investment income which has been afforded preferential tax treatment for many years. This is accomplished by means of a dividend tax credit. Dividends received from taxable Canadian corporations are grossed up by one-third and then included in total income. Federal tax calculated on taxable income is reduced by

a tax credit equal to four-fifths of the increment derived through the gross-up procedure. The dividend tax credit cannot exceed tax otherwise payable. Since Ontario's income tax is calculated on the amount of federal tax net of the dividend tax credit, the Province implicitly provides the taxfiler a dividend tax credit. An illustration of the calculation of tax on dividends received from Canadian corporations is found in Table 6-4.

Calculation of the Dividend Tax Credit
(dollars)

Table 6-4

	Taxable Income ¹		
	\$6,000	\$12,000	\$65,000
Value of Dividend	75.00	75.00	75.00
—gross up amount	25.00	25.00	25.00
Taxable Dividend	100.00	100.00	100.00
Federal Tax	23.00	31.00	47.00
—less dividend tax credit (80% of difference between taxable dividends and dividends received)	20.00	20.00	20.00
Federal Tax Payable	3.00	11.00	27.00
Ontario Tax (at 30.5%)	.92	3.36	8.24
Total Tax on Dividend	3.92	14.36	35.24

¹For purposes of this table, it is assumed that the dividend is marginal income to filers at the various taxable income levels.

In 1972, 406,267 filers reported taxable dividends. The total dollar value reported for tax purposes was \$411 million.⁸ By 1974, the number of filers claiming taxable dividends had increased to 418,276, a growth of only 3 per cent over 1972. Total income from this source, however, displayed growth which far outstripped the growth in filers, increasing by 40 per cent to \$576 million. The very slow growth in filers reporting taxable dividends is a further reflection of the shift in preference towards lower risk investments in the face of less optimistic business forecasts. The strong growth in dividend income reported in spite of the slow growth in filers illustrates the high corporate profits and good performance of the economy over the period.

The income distribution of dividends received from taxable Canadian corporations reported for 1972 through 1974 is shown in Table 6-5. As this table indicates, the distribution of taxable dividend income is biased towards the upper income ranges. Although actual numbers of filers reporting dividend income increased from 1972 to 1974 for all filers reporting income above \$12,000, filers reporting dividend income as a percentage of all taxfilers fell for every income bracket from 1972 to 1974. The high number of low income filers reporting dividends, especially filers in the less than \$5,000 bracket, again is due in large

⁸This amount is the grossed up figure equal to 4/3 of dividends received by Ontario residents.

Income Distribution of Dividends from Taxable Canadian Corporations

Table 6-5

Income	Number of Filers Reporting Dividends	Filers Reporting Dividends as a Per Cent of all Filers in Income Class	Total Value of Actual Dividends ¹	Average Value ²
(\$000)			(\$ million)	(\$)
<i>1972</i>				
0-5	109,999	6	25	236
5-10	115,719	8	43	368
10-12	43,516	13	16	368
12-15	44,268	18	24	527
15-20	40,427	27	34	837
20-25	18,827	38	24	1,286
25-35	16,091	50	34	2,117
35-50	8,909	60	29	3,303
50-75	5,314	70	29	5,457
75 +	3,197	79	50	15,624
All Filers	406,267	10	308	758
<i>1973</i>				
0-5	99,321	5	24	244
5-10	112,672	8	43	379
10-12	39,891	10	19	465
12-15	50,242	15	28	548
15-20	47,496	23	34	707
20-25	23,908	35	30	1,265
25-35	20,524	41	42	2,093
35-50	11,408	56	40	3,505
50-75	6,899	67	38	5,667
75 +	4,585	77	67	14,723
All Filers	416,946	9	365	877
<i>1974</i>				
0-5	84,540	5	24	288
5-10	98,243	7	42	428
10-12	35,711	8	18	515
12-15	50,892	11	28	553
15-20	61,123	18	44	715
20-25	31,793	28	35	1,098
25-35	27,007	40	50	1,852
35-50	14,493	52	50	3,473
50-75	8,436	60	48	5,696
75 +	6,038	75	93	15,463
All Filers	418,276	9	432	1,036

¹Total value of dividends received. To get the total taxable value of dividends, this column must be grossed up by one-third.

²Average value of dividends received. To get the average taxable value of dividends, this column must be grossed up by one-third.

part to the high number of pensioners in these brackets. These pensioners have low reportable income (with little earned income) but many have substantial capital assets generating investment income.

In 1972, 348,584 filers claimed a dividend tax credit. The total value reported was \$77 million, which was applied against tax payable on \$411 million in dividend income. Federal income tax was \$77 million lower than it would have been had there been no dividend tax credit. There were additional tax savings due to Ontario's dividend tax credit which for 1972 was \$23 million.

Table 6-6 displays the income distribution of the dividend tax credit claimed. The number of filers claiming a credit represents 86 per cent of all filers reporting taxable dividends. Not all filers reporting dividend income may claim a dividend tax credit because some filers will not have sufficient income to have any tax payable. If no tax is payable no tax credit can be applied.

In 1973, the number of filers claiming a dividend tax credit had increased to 363,412 or 87 per cent of all filers reporting dividends. The slight increase in the percentage of filers claiming a credit reflects a shift in the distribution of filers reporting taxable dividends from the low income brackets to higher income brackets, probably as a result of income growth. Total value of the federal dividend tax credit claimed increased to \$92 million in 1973, reflecting the increase in total taxable dividends received for that year. The additional tax savings resulting from Ontario's participation in the dividend tax credit is estimated at \$28 million.

In 1974, the absolute number of filers claiming this credit declined to 362,838 filers. This decrease is largely attributable to the tax measures introduced in 1974. The increase in exemptions brought about by tax indexing, the interest deduction and the Registered Home Ownership Savings Plan deduction moved more taxfilers to a zero tax position than would have happened without these measures. The total federal dividend tax credit claimed by Ontario taxfilers in 1974 rose to \$108 million. Ontario income tax was implicitly \$33 million lower in this year.

Capital Gains

Under the income tax system, capital gains are taxed at half the rate applicable to ordinary income. The taxfiler calculates net capital gains by subtracting any losses on capital transactions from total gains on capital transactions and then includes one-half of that difference in taxable income. If net capital gains are negative (a net capital loss), one-half of this figure up to a maximum of \$1,000 may be subtracted from other taxable income.

In 1972, capital gains were reported by 134,525 filers. The average gain reported was \$536 and the total net capital gains reported for

Distribution of Dividend Tax Credit

Table 6-6

TABLE 6

	Income (\$000)	Number of Claimants	Average Value of Tax Credit	
			Federal (\$)	Ontario (\$)
<i>1972</i>				
	0-5	61,421	60	18
	5-10	111,218	97	30
	10-12	42,411	99	30
	12-15	43,085	143	44
	15-20	39,329	227	69
	20-25	18,403	348	106
	25-35	15,753	571	174
	35-50	8,665	892	272
	50-75	5,209	1,457	444
	75 +	3,090	4,158	1,268
	Total	348,584	222	68
<i>1973</i>				
	0-5	56,125	58	18
	5-10	108,132	100	13
	10-12	39,081	124	38
	12-15	48,306	149	45
	15-20	46,388	190	58
	20-25	23,457	341	104
	25-35	19,995	569	174
	35-50	11,184	944	288
	50-75	6,753	1,499	457
	75 +	4,467	3,892	1,187
	Total	363,888	254	77
<i>1974</i>				
	0-5	37,956	50	15
	5-10	94,733	106	32
	10-12	34,351	137	42
	12-15	49,602	147	45
	15-20	60,041	191	58
	20-25	30,968	298	91
	25-35	26,568	497	152
	35-50	14,339	928	283
	50-75	8,315	1,525	465
	75 +	5,965	4,105	1,252
	Total	362,838	298	91

income tax purposes was \$72 million. In 1973, 177,423 filers claimed capital gains. The average gain reported increased to \$631 and the total net capital gains increased to \$112 million.

The 32 per cent increase in the number of filers reporting capital gain income and 55 per cent increase in the total value of taxable capital gains reported from 1972 to 1973 appears to be attributable to two factors. First, with real estate prices rising very rapidly in 1973, many

taxfilers with investment in real property disposed of these assets, and thereby incurred capital gains. Second, an environment of rising inflation and increasingly less optimistic business forecasts influenced many stock market investors, in spite of the good current economic performance, to take their profits and seek less risky and more liquid investments.

In 1974, by contrast, there was almost no growth (3.5 per cent) in capital gains, and the number of filers reporting capital gains actually declined by 5.9 per cent to 167,001 filers. Real estate prices continued to rise in 1974 and taxfilers reaped large gains from dispositions of real assets. However, the stock market slumped, especially later in the year when the full impact of the oil crisis was registering through the economy, with a consequent drop in the performance of shares. The low growth in capital gains in 1974 was then, for the most part, the product of gains on real estate dispositions offset by losses on stock market transactions.

Throughout the period from 1972 to 1974, gains (or losses) from shares constituted the most prevalent form of capital transaction with over half of the filers with capital dispositions reporting share transactions. However, reported gains on real estate became increasingly more numerous over the period and the average value also rose. Bond transactions, while not as common as those in stocks and real estate, were a losing proposition to most filers. The least common form of reported transactions, personal properties, exhibited only modest growth. Table 6-7 summarizes reported transactions over the period.

Transactions Resulting in Capital Gains

Table 6-7

	No. of Filers			Average Gain (\$)		
	1972	1973	1974	1972	1973	1974
Shares	96,195	100,213	89,374	1,053	842	-809
Bonds	11,001	14,053	16,583	-217	-306	-703
Real Estate	10,989	29,031	34,628	-1,017	1,280	4,505
Other Property	29,006	54,109	46,893	312	234	256

The distribution of capital gains by income class is set out in Table 6-8. One of the most interesting features of this table is the relatively large number of filers reporting capital gains and the varying average value of such reported gains for the lower income groups. This behaviour can again be explained in part by the high number of pensioners in this income range, many with very little earned income but substantial assets. For example, over the period, pensioners represented close to 30 per cent of filers with less than \$10,000 gross income who reported capital gains, while the average value reported by pensioners varied substantially from that reported by non-pensioners. In 1972, it was substantially higher; in 1973 and 1974 the value reported was less than that reported by non-pensioners.

As would be expected, Table 6-8 indicates that the percentage of filers reporting gains and the average dollar value claimed increased rapidly as income increased, in spite of the influence of pensioners in the lower income brackets. In order to generate capital gains, one must have the discretionary income to purchase the assets, and this tends to bias capital gains income towards the higher income classes.

Distribution of Taxable Capital Gains by
Income Class

Table 6-8

Income	Number of Filers Reporting Gains	Filers Reporting Gains as a Per Cent of all Filers in Class	Total Value Taxable	Average Value Taxable
(\$000)			(\$ million)	(\$)
<i>1972</i>				
0-5	24,048	1	3.0	124
5-10	30,950	2	6.9	218
10-12	14,692	4	2.4	163
12-15	17,095	7	4.0	232
15-20	18,335	12	7.0	378
20-25	9,473	19	5.3	556
25-35	9,013	28	7.7	857
35-50	5,313	36	6.9	1,305
50-75	3,350	44	8.2	2,433
75 +	2,256	56	19.7	8,732
All Filers	134,525	3	72.1	536
<i>1973</i>				
0-5	30,626	2	5.9	192
5-10	40,872	3	9.9	243
10-12	17,414	4	5.0	289
12-15	23,802	7	8.9	376
15-20	23,648	12	10.5	450
20-25	14,170	21	9.1	645
25-35	12,277	28	11.3	924
35-50	7,127	35	11.2	1,572
50-75	4,555	44	11.0	2,429
75 +	3,286	55	28.9	8,801
All Filers	177,777	4	111.7	631
<i>1974</i>				
0-5	21,802	1	1.0	45
5-10	31,391	2	11.8	374
10-12	12,903	3	5.5	428
12-15	22,676	5	8.1	359
15-20	28,901	9	13.5	468
20-25	16,589	15	8.4	508
25-35	14,746	22	11.6	790
35-50	8,611	31	10.8	1,243
50-75	5,196	37	10.9	2,107
75 +	4,196	52	34.0	8,082
All Filers	167,011	4	115.6	692

Chapter 7: Tax Deferral Mechanisms

This chapter examines how the income tax system is used to encourage savings for retirement and for home ownership.

The income tax system provides a deferral of tax on income contributed to registered retirement savings plans or pension plans. Taxable income in any year is reduced by the amount of a taxpayer's own contribution to such a plan. At retirement, the benefit stream becomes taxable, but a lower marginal rate of tax than the contributor currently experiences will likely then apply. Three types of retirement plans are eligible for tax deferral—contributions to the Canada Pension Plan (CPP), contributions to a registered retirement savings plan (RRSP), and contributions to a registered pension plan (RPP).

These plans are considerably different in structure. An RRSP is structured on an individual accounting basis. The plan must be registered and trustee, and is governed by conditions set forth in the Income Tax Act (Canada). It is portable in that the plan is independent of the taxpayer's employment and the taxpayer can usually change trustees with a minimal amount of difficulty. The Income Tax Act requires the plan to provide for regular payments to the beneficiary upon retirement, with these payments being fully taxable in each year that they are received. On the other hand, the accumulated funds in the plan can be withdrawn in a lump sum by de-registering the plan, but the entire amount is taxable in the year of withdrawal. In addition to the deduction for contributions made to an RRSP, earnings on investment in qualified instruments are not taxable while the plan remains registered.

RPPs, on the other hand, are usually structured on a group accounting basis. An employer will offer the plan to employees, with employee contributions linked to salary and the employer also contributing on behalf of the employee. The payments are usually mandatory for any person employed by an employer who offers an RPP scheme. An individual contributing to an RPP is actually contracting a right to receive a future income stream. The RPP is a contract with stipulated payment terms, providing a life tenancy for the contributor upon retirement. In Ontario, the RPPs' current and past liabilities must be fully funded. Money cannot be withdrawn at any time before retirement unless employment is terminated before the individual has been vested. There is little portability with RPPs.

Contributions to the CPP in respect of income from employment and self-employment are mandatory, unless income earned from those

sources is less than a statutory minimum, while contributions to a registered retirement savings plan are strictly voluntary. Participation in a registered pension plan is usually determined by negotiations between an employer and employee.

Contributions in a given year to each of the three types of retirement savings plans have statutory limits. Contributions to the CPP are limited by a maximum income subject to contribution: in 1974, the maximum contribution was \$106.20. For the period 1972-74, contributions to a RPP were limited to \$2,500. Contributions to an RRSP where the person does not belong to an RPP were limited to \$4,000 or 20% of earned income. If a person contributed to both an RRSP and an RPP, the maximum that person could claim as contributions for income tax purposes was \$2,500 or 20% of earned income, whichever is less.

Table 7-1 displays the distribution of contributions among the various tax deferral plans for 1972, 1973 and 1974. As this table demonstrates, contributors to the Canada Pension Plan far outnumber contributors to either registered retirement savings plans or registered pension plans. All filers with employment income greater than the basic exemption must contribute to the Canada Pension Plan. However, because of the comparatively low statutory ceilings on CPP contributions and the relatively small CPP contribution rate, the amount of income contributed and the amount of tax deferred is much lower than is the case with either of the other plans.

Table 7-1 also demonstrates the relative growth of these retirement savings plans. Although the number of filers who contribute to a registered pension plan is nearly three times the number of filers who contribute to a registered retirement savings plan, the former experienced

Taxfilers Contributing to Pension Plans			Table 7-1
	Number of Contributors	Average Contribution	Total Contribution
	(000)	(\$)	(\$ million)
<i>1972</i>			
Canada Pension Plan	3,269	72	236
Registered Pension Plan	987	409	404
Registered Retirement Savings Plan	227	1,191	271
<i>1973</i>			
Canada Pension Plan	3,424	75	258
Registered Pension Plan	1,002	444	445
Registered Retirement Savings Plan	311	1,187	369
<i>1974</i>			
Canada Pension Plan	3,568	88	313
Registered Pension Plan	1,032	490	506
Registered Retirement Savings Plan	374	1,301	487

only a 4.6 per cent increase in the number of contributors from 1972 to 1974 compared to a 64.8 per cent increase in the number of filers who contributed to the latter. The dollar value of RRSP deductions increased by almost 80 per cent over the period, while the value of RPP deductions increased by 25 per cent.

There was likely both an income and substitution effect responsible for this behaviour. The increase in income over the period meant that filers had more disposable income available to purchase retirement schemes. This led to an overall increase in demand for all types of savings for retirement purposes in 1973 and 1974. The structure and administration of RRSPs, which afford the individual easier access to and control over his savings, the high contribution ceiling, which means larger tax savings, and high interest rates all contribute to make RRSPs a very attractive instrument for investment in retirement income. In addition, a taxpayer who contributes to an RPP is unable to channel more funds into the RPP than the plan allows. As a result, the individual must move any excess funds into an RRSP should he or she wish to expand retirement savings.

At the same time, it is likely that a large number of filers shifted savings from traditional instruments to RRSPs in order to enjoy the tax benefits of savings in an RRSP. Although similar tax savings were available under RPPs, such pension plans are usually an employment benefit option with contributions linked to salary and other such criteria and the accumulated contributions can be “locked-in” until retirement. As a result, RPPs, in spite of offering in the majority of cases matching employer contributions, are much more restrictive and less appealing to people who wish to save at their own desired rate.

This substitution effect was reinforced by the strong promotion of RRSPs carried on since 1971. Although RRSPs existed prior to tax reform, this heavy exposure began when the ceilings on deductions were increased significantly with tax reform to yield far more attractive potential tax savings.

Table 7-2 shows that, in 1973, some \$377 million in income tax was deferred in Ontario via the deduction of pension contributions. The bulk of this tax saving was attributable to registered pension plans and registered retirement savings plans. In terms of the average contribution per contributor, the average taxfiler contributing to the CPP saved approximately \$20 in income taxes, the average contributor to an RPP saved \$156 in income taxes and the average contributor to an RRSP saved approximately \$480 in income taxes.⁹ In 1974, the total tax deferral from these plans grew by over 22 per cent to \$461 million. On a per contributor basis, the average tax savings were \$24 from the CPP, \$172 from an RPP and \$527 from an RRSP.

⁹Based on average marginal tax rates derived from the income distributions of contributors and the average basic federal tax payable in each income cell.

Tax Savings Resulting from Contributions to
Pension and Savings Plans, 1973 and 1974

Table 7-2

	Applicable Tax Rate ¹	Total Amount Contributed	Tax Deferred
	(%)	(\$ million)	(\$ million)
<i>1973</i>			
Canada Pension Plan	27.4	258	71
Registered Pension Plan	35.2	445	157
Registered Retirement Savings Plan	40.5	369	149
Total		1,072	377
<i>1974</i>			
Canada Pension Plan	27.4	313	86
Registered Pension Plan	35.2	506	178
Registered Retirement Savings Plan	40.5	487	197
Registered Home Ownership Savings Plan	32.6	84	27
Total		1,390	488

¹Applicable tax rate which includes Ontario Income Tax was derived via analysis of data on contributors to the various plans.

The tables in appendix D show the distribution of contributors to the various pension plans by income class. The income distribution of CPP contributors parallels the distribution of filers who report earnings from employment and/or earnings from self-employment (see chapter 5). With the exception of the lowest and highest income brackets, over 90 per cent of the filers in each bracket made contributions in the Canada Pension Plan. The lower percentage of contributions by filers reporting less than \$5,000 income is explained by the fact that this bracket contains many occasional workers who earn less than the statutory minimum from employment sources, many persons with non-contributory earnings and pensioners. The increase in average contributions reflects an increase in maximum insurable earnings and an increase in employment earnings for those taxfilers below the earnings ceiling.

For all three years, the percentage of filers claiming contributions to a registered pension plan varies from less than 6 per cent in the lowest income bracket to over 50 per cent in the \$20,000-\$25,000 bracket with the heaviest concentration of contributors in the middle income ranges. This reflects the fact that RPPs are commonly offered as a benefit of employment and so are linked to the payment of wages and salaries. Employees as a percentage of all filers are highest in the \$5,000 to \$25,000 income range.

It should be noted that the total number of taxfilers with retirement pension plans is understated in the tables in Appendix D since the income tax system concerns itself only with contributions by the taxfilers. Any plans where the employer contributes the full premium are not included in these tables. Similarly, the total value of RPP con-

tributions represents only the employee portion deductible for tax purposes and so understates the total value of contributions to RPPs in the province.

Participation rates of contributors to registered retirement savings plans increase progressively as income increases, from less than 1 per cent in the lowest income bracket to 60 per cent for those filers with incomes in excess of \$50,000 in all three years. Although those filers reporting over \$12,000 in gross income represented less than one quarter of all taxfilers, they represented over one-half of the total number of filers contributing to an RRSP. There was substantial growth in the number of contributors from 1972 to 1973, averaging over 40 per cent for all filers reporting more than \$10,000 in gross income. This growth was sustained through 1974 by a 25 per cent increase for the same group. This popularity of registered plans with the higher income classes is a reflection of the fact that the tax benefit derived from contributions to the plans increases as income increases because of rising marginal tax rates. Also, the easier accessibility to RRSPs attracts people who do not want to be severely restricted in altering their portfolios. These facts, plus the higher disposable income characteristic of the upper income brackets, explain the rapidly escalating average contributions over the income groups.

For the most part, average contributions made to RPPs and RRSPs by filers reporting less than \$35,000 in gross income fell slightly from 1972 to 1973 and again from 1973 to 1974. This behaviour can be explained to a large extent by the influx of new contributors, many of whom contributed small initial amounts to their plans. In addition, on an individual contribution basis, many contributors experienced sufficient income growth over the period to move to higher income brackets. As well, many contributors in the higher income groups already contribute the maximum allowable amount.

Beginning in 1974, the income tax system was also used to encourage savings for home ownership. The Registered Home Ownership Savings Plan (RHOSP) was introduced to assist eligible taxpayers to save towards the purchase of a home. Taxpayers aged 18 and over with no interest in real property in the taxation year are permitted to contribute up to \$1,000 per year to an RHOSP, to a maximum lifetime contribution of \$10,000. The contribution is tax deductible. Only one plan can be opened by the taxpayer in his life. Most plans are deposit type plans, with interest occurring and compounding at regular intervals. The proceeds of the plan can be applied tax-free towards the purchase of an owner-occupied home and furnishings for the home. In 1974, 88,000 filers contributed \$84 million to RHOSPs, with a consequent \$27 million tax deferral.

Appendix table D-3 shows the distribution of taxfilers contributing to an RHOSP in 1974. The fact that ownership of the plans is restricted

to those not currently owning a residence is the predominant factor limiting participation. In addition, the lack of disposable income for the majority of taxfilers in the lower income brackets excludes many from taking advantage of the plan. It is interesting that most filers who do contribute, regardless of their income bracket, take almost full advantage of the available deduction.

Appendix A

Sources of Information

The data appearing in this publication are based on a computer analysis of individual income tax returns for 1972, 1973 and 1974. The data set for each year consists of a scientifically selected sample of the universal Ontario taxfiling population. This data set is prepared annually by Revenue Canada. All identifying characteristics of each record were removed prior to analysis to ensure confidentiality.

For the 1972 data, each return selected in the sample may represent from 1 to 98 returns, depending upon certain well-defined selection criteria.¹⁰ The selection technique was modified for the 1973 data so that each return selected may represent from 1 to 150 returns. This method was also applied to the 1974 data.

	1972	1973	1974
Number of returns in sample	224,681	108,354	130,983
Number of returns in universe	4,174,063	4,424,710	4,662,458
Percentage of total returns selected	5.38%	2.45%	2.81%

Since each data set is prepared, in most cases, within twelve months after the end of the respective taxation year, a small number of tax returns, unprocessed at the time of the sample selection, are omitted. As a result, the total appearing in the summary tables may underestimate the actual totals but by no more than two per cent.

¹⁰Further discussion of the sampling technique can be found in Taxation Statistics, Revenue Canada, Taxation.

Appendix B

Calculation of Income Tax Payable

Income earned or accumulated in Ontario is subject to taxation by both the federal and the Ontario governments. The personal income tax of both jurisdictions is administered by the federal government. Income tax payable in Ontario is calculated by the application of a rate schedule to taxable income. In the calculation of tax, taxable income is determined by subtracting applicable exemptions and deductions from total income reported for tax purposes. The federal marginal rate schedule, ranging from a low of 17% (15% in 1973 and 12% in 1974) to a high of 47%, is applied to taxable income and federal tax is calculated. Any dividend tax credit claimed is subtracted from federal tax to yield basic federal tax. Federal tax payable is federal basic tax less any foreign tax credit and any federal tax cuts applicable. Ontario income tax is calculated by applying Ontario's tax rate of 30.5% to federal basic tax. Ontario tax payable is Ontario basic tax less Ontario tax credits.

1973 Marginal Rates of Income Tax

Table B-1

Taxable Income	Federal Marginal Rate	Ontario Marginal Rate	Combined Marginal Rate
\$	(%)	(%)	(%)
1	15	4.6	19.6
501	18	5.5	23.5
1,001	19	5.8	29.8
2,001	20	6.1	26.1
3,001	21	6.4	27.4
5,001	23	7.0	30.0
7,001	25	7.6	32.6
9,001	27	8.2	35.2
11,001	31	9.4	40.4
14,001	35	10.7	45.7
24,001	39	11.9	50.9
39,001	43	13.1	56.1
60,001	47	14.3	61.3

Notes: 1. These marginal rates are applied to taxable income to determine federal tax payable. These rates do not incorporate any tax adjustments, dividend tax credits or federal tax cuts.

2. For 1974, each taxable income threshold was indexed by 6.6 per cent and the lowest federal marginal rate was decreased to 12 per cent with a consequent decrease in the corresponding Ontario rate to 3.7 per cent.

For 1974 and future years, the tax system is indexed. Under this concept, general exemptions and the taxable income brackets are increased in each year to reflect the extent of inflation in the country. The indexing factor in 1974 was 6.6 per cent. As a result, the levels of taxable income dictating the tax brackets were increased by 6.6 per cent for the 1974 taxation year.

Appendix C

Distribution of Interest Income by Income Class Table C-1

Income Class	Number of Filers	Filers Reporting Interest as a % of all Filers in Class	Average Value
(\$000)			(\$)
<i>Bond Interest</i>			
<i>1972</i>			
0-5	124,922	6.5	453
5-10	112,196	8.1	541
10-12	33,164	9.8	525
12-15	28,441	11.2	614
15-20	21,738	14.7	921
20-25	9,179	18.6	1,265
25-35	6,971	21.3	1,887
35-50	3,567	24.3	2,634
50-75	2,116	27.7	4,040
75 +	1,396	34.4	7,335
All Filers	343,690	8.2	655
<i>1973</i>			
0-5	102,295	5.3	494
5-10	113,829	8.1	576
10-12	34,023	8.7	561
12-15	34,836	10.1	680
15-20	25,928	12.7	896
20-25	12,590	18.3	1,171
25-35	9,045	20.4	1,699
35-50	4,388	21.7	2,506
50-75	2,693	26.1	3,624
75 +	1,843	30.7	7,439
All Filers	359,470	8.1	711
<i>1974</i>			
0-5	113,346	6.2	484
5-10	113,965	8.3	652
10-12	38,556	8.9	597
12-15	47,131	10.1	591
15-20	41,670	12.4	882
20-25	20,151	17.9	1,043
25-35	13,427	19.6	1,562
35-50	6,065	21.3	2,501
50-75	3,201	23.0	3,587
75 +	2,230	26.5	7,577
All Filers	399,742	8.6	756

Distribution of Interest Income by Income Class

Table C-1
(Continued)

	Income Class	Number of Filers	Filers Reporting Interest as a % of all Filers in Class	Average Value
	(\$000)			(\$)
	<i>Bank Interest</i>			
1972	0-5	619,520	32.0	280
	5-10	586,260	42.1	280
	10-12	181,288	53.5	257
	12-15	149,903	58.8	305
	15-20	95,305	64.6	423
	20-25	34,668	70.4	606
	25-35	24,453	74.8	918
	35-50	11,569	78.8	1,487
	50-75	6,289	82.2	2,317
	75 +	3,394	83.7	6,674
	All Filers	1,711,787	41.0	332
1973	0-5	664,180	34.5	297
	5-10	607,911	43.1	320
	10-12	210,044	53.4	304
	12-15	199,768	58.1	331
	15-20	134,454	65.6	435
	20-25	50,172	72.8	637
	25-35	33,498	75.3	1,016
	35-50	15,775	77.7	1,508
	50-75	8,447	81.8	2,118
	75 +	5,018	84.3	5,992
	All Filers	1,929,267	43.6	372
1974	0-5	675,797	37.1	374
	5-10	626,506	45.6	502
	10-12	227,939	52.6	452
	12-15	282,268	60.5	469
	15-20	225,363	67.0	604
	20-25	86,475	77.0	840
	25-35	55,514	81.1	1,290
	35-50	23,680	83.3	2,263
	50-75	12,097	87.0	3,693
	75 +	7,462	88.7	9,446
	All Filers	2,223,101	47.7	563

Distribution of Interest Income by Income Class

Table C-1
(Continued)

Income Class	Number of Filers	Filers Reporting Interest as a % of all Filers in Class	Average Value
(\$000)			(\$)
<i>Mortgage Interest</i>			
<i>1972</i>			
0-5	65,407	3.4	919
5-10	47,173	3.4	1,319
10-12	14,476	4.3	1,405
12-15	12,793	5.0	1,498
15-20	11,176	7.6	2,090
20-25	5,193	10.5	2,469
25-35	4,363	13.3	3,212
35-50	2,414	16.4	3,810
50-75	1,482	19.4	5,168
75 +	956	23.6	9,592
All Filers	165,433	4.0	1,439
<i>1973</i>			
0-5	56,800	2.9	992
5-10	46,580	3.3	1,473
10-12	14,606	3.7	1,601
12-15	15,796	4.6	1,616
15-20	13,185	6.4	1,999
20-25	6,475	9.4	2,835
25-35	5,536	12.5	3,257
35-50	3,290	16.3	3,941
50-75	1,862	18.1	5,178
75 +	1,402	23.6	10,229
All Filers	165,532	3.7	1,652
<i>1974</i>			
0-5	44,454	2.4	1,006
5-10	43,062	3.1	1,530
10-12	12,804	2.7	1,643
12-15	16,145	3.5	1,628
15-20	16,796	5.0	2,076
20-25	8,063	7.2	2,506
25-35	7,064	10.3	3,742
35-50	3,809	13.4	4,610
50-75	2,234	16.1	6,222
75 +	1,820	21.6	12,160
All Filers	155,251	3.3	1,877

Appendix D

Distribution of CPP, RPP and RRSP Contributions by Income Class: 1972 Table D-1

Income	Total Number of Filers in Income Class	CPP Contributions			RPP Contributions ²			RRSP Contributions		
		Number of Contributors	Average Contribution ¹	(000)	Number of Contributors	Average Contribution	(000)	Number of Contributors	Average Contribution	(000)
(\$000)	(000)		(\$)			(\$)			(\$)	
0-5	1,933	1,144	39		102	106		13	347	
5-10	1,393	1,313	88		491	288		64	600	
10-12	339	328	90		149	438		29	871	
12-15	253	245	91		124	577		36	1,082	
15-20	147	140	93		73	767		38	1,396	
20-25	49	46	96		26	1,003		18	1,872	
25-35	33	30	103		15	1,329		15	2,265	
35-50	15	13	113		4	1,594		8	2,868	
50-75	8	7	119		2	1,763		4	3,298	
75 +	4	3	112		1	1,876		2	3,462	
Total	4,174	3,269	72		987	409		227	1,191	

¹Maximum contribution on employment earnings was \$88.20. For self-employed earnings, the contribution is double. As a result, average contributions can be greater than \$88.20 for some income cells.

²This does not necessarily represent all taxpayers with pension plans as those filers with plans whose premiums are paid completely by their employer are not included.

Note: Columns may not add due to rounding.

Distribution of CPP, RRP and RRSPP Contributions by Income Class; 1973 Table D-2

Income	Total Number of Filers in Income Class	CPP Contributions		RRP Contributions ²		RRSP Contributions	
		Number of Claimants	Average Contribution ¹	Number of Claimants	Average Contribution	Number of Claimants	Average Contribution
(\$000)	(000)	(000)	(\$)	(000)	(\$)	(000)	(\$)
0-5	1,926	1,069	39	84	100	15	330
5-10	1,409	1,309	90	440	285	79	579
10-12	393	379	92	160	442	41	788
12-15	344	332	93	156	569	53	1,038
15-20	205	197	95	98	755	54	1,377
20-25	69	65	99	35	992	26	1,725
25-35	44	41	104	20	1,324	23	2,158
35-50	20	18	117	6	1,704	11	2,888
50-75	10	9	123	2	1,788	6	3,322
75+	6	5	114	1	2,024	3	3,477
Total	4,427	3,424	75	1,002	444	311	1,187

¹Maximum contribution on employment earnings was \$90. However, for self-employed taxpayers the contribution is double. As a result, average contributions can be greater than \$90 for some income cells.

²This does not necessarily represent all filers with pension plans as those filers with plans whose premiums are paid completely by their employer are not included.

Note: Columns may not add due to rounding.

Distribution of CPP, RPP, RRSP and RHOSP Contributions by Income Class; 1974 Table D-3

Income	Total Number of Filers in Income Class	CPP Contributions			RPP Contributions ²			RRSP Contributions			RHOSP Contributions		
		Number of Claimants	Average Contribution ¹	Number of Claimants	Average Contribution	Number of Claimants	Average Contribution	Number of Claimants	Average Contribution	Number of Claimants	Average Contribution	Number of Claimants	Average Contribution
(\$000)	(000)	(000)	(\$)	(000)	(\$)	(000)	(\$)	(000)	(\$)	(000)	(\$)	(000)	(\$)
0-5	1,822	919	37	54	92	12	355	8	884				
5-10	1,373	1,243	99	343	272	72	633	33	945				
10-12	433	416	108	179	424	44	797	12	958				
12-15	466	452	109	196	523	64	1,000	14	974				
15-20	336	323	111	159	701	78	1,328	11	971				
20-25	112	106	114	57	980	42	1,712	4	959				
25-35	68	64	121	31	1,239	34	2,190	2	983				
35-50	28	26	133	9	1,666	16	2,788	2	997				
50-75	14	12	144	3	1,890	8	3,315	1	1,000				
75 +	8	7	134	2	1,962	5	3,588	1	1,000				
Total	4,662	3,568	88	1,033	490	375	1,301	88	953				

¹Maximum contribution on employment earnings was \$106.20. However, for self-employed taxpayers the contribution is double. As a result, average contributions can be greater than \$106.20 for some income cells.

²This does not necessarily represent all filers with pension plans as those filers with plans whose premiums are paid completely by their employer are not included.

Note: Columns may not add due to rounding.

